

## § 614.4359

## 12 CFR Ch. VI (1–1–05 Edition)

the requirements of title VIII of the Act.

[58 FR 40321, July 28, 1993. Redesignated and amended at 64 FR 34517, June 28, 1999; 67 FR 1285, Jan. 10, 2002]

### § 614.4359 Attribution rules.

(a) For the purpose of applying the lending and leasing limit to the indebtedness of a borrower, loans to a related borrower shall be combined with loans outstanding to the borrower and attributed to the borrower when any one of the following three conditions exist:

(1) *Liability.* (i) The borrower has primary or secondary liability on a loan made to the related borrower. The amount of such loan attributable to the borrower is limited to the amount of the borrower's liability.

(ii) This section does not require attribution of a guarantee taken out of an abundance of caution. To qualify for the abundance of caution exception to the requirements of this subpart, the institution must document in the loan file that the loan, when evaluated under the loan underwriting standards adopted pursuant to § 614.4150 of this part without considering the guarantee, would support the credit decision under the same basic terms and conditions.

(iii) For the banks for cooperatives and agricultural credit banks operating under title III authorities of the Act, look-through notes are exempt from the lending limit provisions provided they meet the criteria of § 614.4357.

(2) *Financial interdependence.* The operations of a borrower and related borrower are financially interdependent. Financial interdependence exists if the borrower is the primary source of repayment for a related borrower's loan, or if the operations of the borrower and the related borrower are commingled.

(i) The borrower shall be considered the primary source of repayment on the loan to the related borrower if the borrower is obligated to supply 50 percent or more of the related borrower's annual gross receipts, *and* reliance on the income from one another is such that, regardless of the solvency and liquidity of the borrower's operations, the debt service obligation of the related borrower could not be met if income flow from the borrower is inter-

rupted or terminated. For the purpose of this paragraph, gross receipts include, but are not limited to, revenues, intercompany loans, dividends and capital contributions.

(ii) The assets or operations of the borrower and related borrower are considered to be commingled if they cannot be separated without materially impacting the economic survival of the individual operations and their ability to repay their loans.

(3) *Control.* The borrower directly or indirectly controls the related borrower. A borrower is deemed to control a related borrower if either paragraph (a)(3)(i) or (a)(3)(ii) of this section exist:

(i) The borrower, directly or acting through one or more other persons, owns 50 percent or more of the stock of the related borrower; or

(ii) The borrower, directly or acting through one or more other persons, owns or has the power to vote 25 percent or more of the voting stock of a related borrower, and meets at least one of the following three conditions:

(A) The borrower shares a common directorate or management with a related borrower. A common directorate is deemed to exist when a majority of the directors, trustees, or other persons performing similar functions of one borrower also serves the other borrower in a like capacity. A common management is deemed to exist if any employee of the borrower holds the position of chief executive officer, chief operating officer, chief financial officer, or an equivalent position in the related borrower's organization.

(B) The borrower controls in any manner the election of a majority of directors of a related borrower.

(C) The borrower exercises or has the power to exercise a controlling influence over management of a related borrower's operations through the provisions of management placement or marketing agreements, or providing services such as insurance carrier or bookkeeping.

(b) Each institution shall make provisions for appropriately designating loans to a related borrower that are combined with the borrower's loan and attributed to the borrower to ensure

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that loans to the borrower are within the lending and leasing limits.

(c) *Attribution rules table.* For the purposes of applying the lending and leasing limit to the indebtedness of a borrower, loans to a related borrower shall

be combined with loans outstanding to the borrower and attributed to the borrower when any one of three attribution rules are met as outlined in Table 1.

TABLE 1

Attribution rule	Criteria per §614.4359	Attribute
(A) Liability ..... *to the extent of the borrower's liability.	Borrower has primary or secondary liability ..... Borrower's liability is taken out of an abundance of caution .....	Yes.* No.*
(B) Financial Interdependence ..... (Economic survival of the borrower's operation will materially impact economic survival of the related borrowers operation).	Look-through notes (BC only) ..... Source of Repayment: Borrower is obligated to supply 50 percent or more of related borrower's annual gross receipts, and reliance on the income from one another is such that the debt service of the related borrower could not be met if income flow from the borrower is interrupted or terminated. Commingled Operations: Assets or operations of the borrowers are commingled and cannot be separated without materially impacting the borrowers' repayment capacity	No. Yes. Yes.
(C) Control ..... (The borrower, directly or indirectly, controls the related borrower).	The borrower owns 50 percent or more of the stock of the related borrower. The borrower owns or has the power to vote 25 percent or more of the voting stock of a related borrower, and (1) Shares a common directorate or management with a related borrower, or (2) Controls the election of a majority of directors of a related borrower, or (3) Exercises a controlling influence over management of a related borrower's operations through the provisions of management placement or marketing agreements, or providing services such as insurance carrier or bookkeeping.	Yes. Yes.

[58 FR 40321, July 28, 1993, as amended at 62 FR 51015, Sept. 30, 1997. Redesignated and amended at 64 FR 34517, June 28, 1999]

### §614.4360 Lending and leasing limit violations.

(a) Each loan, except loans that are grandfathered under the provisions of §614.4361, shall be in compliance with the lending and leasing limit on the date the loan is made, and at all times thereafter. Except as provided for in paragraph (b) of this section, loans which are in violation of the lending and leasing limit shall comply with the provisions of §615.5090 of this chapter.

(b) Under the following conditions a loan that violates the lending and leasing limit shall be exempt from the provisions of §615.5090 of this chapter:

(1) A loan in which the total amount of principal outstanding and undisbursed commitments exceed the lending and leasing limit because of a decline in permanent capital after the loan was made.

(2) Loans on which funds are advanced pursuant to a commitment that

was within the lending and leasing limit at the time the commitment was made, even if the lending and leasing limit subsequently declines.

(3) A loan that exceeds the lending and leasing limit as a result of the consolidation of the debt of two or more borrowers as a consequence of a merger or the acquisition of one borrower's operations by another borrower. Such a loan may be extended or renewed, for a period not to exceed 1 year from the date of such merger or acquisition, during which period the institution may advance and/or readvance funds not to exceed the greater of:

(i) 110 percent of the advances to the borrower in the prior calendar year; or  
(ii) 110 percent of the average of the advances to the borrower in the past 3 calendar years.

(c) For all lending and leasing limit violations except those exempted under §614.4360(b)(3), within 90 days of the